

## Course Outline

### EE 312 MACROECONOMIC THEORY (Sect 046401)

<b>Semester:</b>	2/2016 (16 January – 13 May 2017)
<b>Instructor:</b>	Dr. Pichit Likitkijksomboon Room 461 Faculty of Economics pichit@econ.tu.ac.th
<b>Time:</b>	Wednesday, Friday 11:00-13:00 hrs
<b>Venue:</b>	Economics Faculty Building, Tha Prachan Campus
<b>Prerequisites:</b>	a) EE 211 and EE 212 or b) EE 213 and EE 214

#### I. Course Description

Analysis of the relationship between product, money, securities and labour markets and the foreign sector in determining the general economic stability with emphasis on their effects on income, employment and the general price level. Study of the influence of Classical and Keynesian theories on the analysis of economic problems and their policy implications.

#### II. Objective of the Course

To provide students with an understanding of macroeconomic theory and its analytical approach to economic system, as well as an ability to apply macroeconomic theory to economic problems and policies.

#### III. Evaluation

Exercises	10	points
Mid-term exam	30	points
Final exam	<u>60</u>	points
Total	<u>100</u>	points

Mid-term exam date:	Wednesday 8 March 2017 Time: 11:00 – 13:00 hrs
Final exam date:	Monday 22 May 2017 Time: 9:00 – 12:00 hrs

#### IV. Textbooks

Williamson, Stephen D. 2017. *Macroeconomics*. 6th ed., New York: Pearson Addison-Wesley.

Froyen, Richard T. 2012. *Macroeconomics: Theories and Policies*. 10<sup>th</sup> ed., Pearson Addison-Wesley.

#### V. Lecture Outline

## **1. Introduction**

- 1.1. The subject of macroeconomics
- 1.2. Gross Domestic Product
- 1.3. Economic growth and business cycles
- 1.4. Macroeconomic models
- 1.5. Micro-based macroeconomic theory

Read: Williamson, Ch. 1.

## **2. Macroeconomic Measurement**

- 2.1. Review on GDP measurement
- 2.2. Real GDP and nominal GDP
- 2.3. Chain-value measure GDP
- 2.4. Price indices and inflation measurement
- 2.5. Labor market measurement

Read: Williamson, Ch. 2.

## **3. A Closed-Economy One-Period Macroeconomic Model**

- 3.1. Consumer: work-leisure decision and labor supply
- 3.2. Firm: profit maximization and labor demand
- 3.3. Government sector
- 3.4. Competitive equilibrium and Pareto optimality
- 3.5. Model application: Changes in government spending and total factor productivity.

Read: Williamson, Ch. 4, 5.

## **4. Economic Growth**

- 4.1. Solow growth model
- 4.2. Growth accounting
- 4.3. Income disparity among countries
- 4.4. Endogenous growth: human capital accumulation

Read: Williamson, Ch. 7, 8.

## **5. A Two-Period Model: the Consumption-Savings Decision**

- 5.1. Consumer: present and future consumption and the real interest rate
- 5.2. Effect of permanent and temporary increases in income.
- 5.3. Government sector and competitive equilibrium
- 5.4. The Ricardian Equivalent Theorem

Read: Williamson, Ch. 9.

## **6. A Real Intertemporal Model with Investment**

- 6.1. Consumer: current labor supply and demand for consumption goods
- 6.2. Firm: current labor demand and investment decision
- 6.3. Government sector and competitive equilibrium
- 6.4. Current labor market and current goods market
- 6.5. Model applications: changes in government spending, capital stock, total factor productivity

Read: Williamson, Ch. 11.

## **7. A Monetary Intertemporal Model**

- 7.1. Market for credit card balances and the demand for money
  - 7.2. Government sector and competitive equilibrium
  - 7.3. Monetary neutrality
  - 7.4. Applications: changes in total factor productivity, shifts in money demand
  - 7.5. Monetary policy and rules
- Read: Williamson, Ch. 12.

## **8. Market-Clearing Models of the Business Cycle**

- 8.1. The real business cycle model
  - 8.2. The Keynesian coordination failure model
- Read: Williamson, Ch. 13.

## **9. Keynesian Business Cycle Theory**

- 9.1. The sticky wage model
  - 9.2. The IS-LM, AD-AS model
  - 9.3. The non-neutrality of money
  - 9.4. Fiscal and monetary policies in the Keynesian model.
- Read: Williamson, Ch. 14.

## **10. International macroeconomics: foreign exchange market**

- 10.1. The balance of payments and the current account
  - 10.2. The foreign exchange market: demand and supply of foreign exchange
  - 10.3. The flexible exchange rate regime
  - 10.4. The fixed exchange rate regime
  - 10.5. The derivation of the BP line.
- Read: Froyen, Ch.14.

## **11. International Macroeconomics: Mundell-fleming model**

- 11.1. The IS-LM-BP model with perfect capital mobility
  - 11.2. A small open economy with a fixed exchange rate
  - 11.3. A small open economy with a flexible exchange rate
- Read: Froyen, Ch.15.

## **12. Inflation and unemployment**

- 12.1. The Phillips Curve
  - 12.2. The wage-price spiral
  - 12.3. Friedman and Phelps: the natural rate of unemployment
  - 12.4. Expectations-augmented Phillips Curve
  - 12.5. Friedman and Lucas: The money-surprise model and stagflation
  - 12.6. Rational expectations hypothesis
  - 12.7. Monetarist criticism of Keynesian stabilization policy
  - 12.8. Monetarism: Quantity of Money
  - 12.9. Monetary policy: discretion versus policy rules
- Read: Froyen, Ch.9, 10, 17.